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SUBJECT: EGYPT: MINISTER OF INVESTMENT SPEAKS ON REFORMS AND ECONOMIC STRATEGY

¶1. (U) Key Points

-- The Egyptian Minister of Investment Mahmoud Mohieldin threw his weight behind a forthcoming World Bank study on the Egyptian investment climate and recommended reforms.

-- Mohieldin said Egypt cannot expect the high growth rates that it experienced before the crisis for at least 3-5 years.

-- Mohieldin indicated that the future of foreign investment in Egypt may lie more in Asia than in Europe.

¶2. (U) In his remarks opening the Egypt Investment Climate Assessment 2009 in Cairo on June 22, Minister of Investment Mahmoud Mohieldin expressed broad agreement with the findings and recommendations of a forthcoming World Bank report. He explained that continued investment reform is crucial to propelling Egypt in a fundamentally altered global economy. He opined that a new economic norm is emerging as a result of the global financial crisis, and that expectations must be adjusted. Over the next three to five years, he said, Egypt will have to adjust to lower average GDP growth, higher unemployment, and more difficult investment promotion due to stronger protectionist measures erected by OECD states and other developed countries.

¶3. (U) Mohieldin told the assembled audience of economists, businesspeople, NGO representatives, and Egyptian government officials that he is "very concerned" that Egypt is facing a "new economic order" and a "global crowding-out effect." He cited a lower risk appetite among foreign investors making it more difficult to attract investment. As a result, Mohieldin said that it may be difficult for Egypt to reach even the diminished economic growth expectations caused by the global downturn. Although 4-5% GDP growth is not unimpressive, he explained, only growth rates of 6-7% will have a positive impact on unemployment and poverty in Egypt.

¶4. (U) The Minister said another impact of the global crisis is a major shift in economic power from the west toward the east. He stated that the crisis has "expedited" the process of moving India and China to the top of the global economic order, with the United States, Japan, and European countries being bumped down in global economic importance. He said that the United States is still the "main provider of global public goods," such as the "mighty dollar," but that even the dollar is beginning to be questioned. He brought up recommendations from the governor of the Chinese central bank, Zhou Xiaochuan, in March to replace the dollar as the sole reserve global currency, and explained that such changes must be considered. He added that Egypt should strengthen ties with emerging economic powers, particularly India and China, and enhance Egypt's ability to take advantage of those ties. Ports along the Red Sea will become as important as ports on the Mediterranean because of increased trade with Asia, Mohieldin explained. He cited as an optimistic sign that, over the last two months, Egypt has seen more business delegations from Malaysia and other Asian nations than from all the European countries combined.

¶5. (U) The World Bank report discussed at the conference is expected to be released in full within a month, but the lead author presented its summary findings and recommendations to the Minister and audience. The report explains that, although some reforms from 2005 are beginning to have an impact across sectors, deeper and more widescale reform is still crucial to draw increased investment and develop the private sector. The World Bank found that the top constraints to investment in Egypt include macroeconomic uncertainty, particularly inflation and concern about the Egyptian government's response to the global crisis, a still burgeoning informal market that competes against and often undercuts businesses in the formal economy, regulatory uncertainty, insufficient human capital, and barriers to financing. Mohieldin stated that the "findings should not come as a surprise to anyone," and that corruption is an area that will require particularly increased attention.

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